

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF WARREN COUNTY	)	
WATER DISTRICT, WARREN COUNTY,	)	
KENTUCKY, SEEKING APPROVAL OF AN	)	
INCREASE IN ITS SCHEDULE OF SEWER	)	
SERVICE RATES AND CHARGES, SUCH	)	CASE NO. 8084
INCREASE TO BE EFFECTIVE AS OF	)	
THE 5th DAY OF JANUARY 1981	)	

O R D E R

On December 1, 1980, Warren County Water District (Applicant) situated in Warren County, Kentucky, acting by and through its Commission respectfully tendered an application and requested that the Public Service Commission (formerly the Utility Regulatory Commission) approve an increase in the schedule of sewer rates and charges allowed to be levied and collected to be effective on and after January 5, 1981. Including an additional large industrial customer, the proposed rates would produce additional revenues of \$33,386 or approximately 36%. Applicant stated that the proposed increased schedule of sewer rates, rentals and charges would be adequate to amortize its outstanding securities and would provide income and revenue sufficient to pay operating and maintenance costs, make renewals and replacements to the utility's facilities as required and generally insure financially stable and businesslike operation for the benefit of the general public.

To determine the reasonableness of the proposed rates, the Commission in an Order dated December 2, 1980, suspended the requested increase in rates for a period of five months on and after the effective date. Further, in an Order dated January 19, 1981, the Commission set a public hearing to be held April 8, 1981, at its offices in Frankfort,

Kentucky. Notice of such hearing was made by Applicant in accordance with the Kentucky Revised Statutes and the Commission's regulations. A public hearing in this matter was held as scheduled with the Consumer Intervention Division of the Attorney's General Office being the only party to intervene. At the conclusion of the hearing, this matter was submitted to the Commission for final determination.

#### TEST PERIOD

For purposes of testing the reasonableness of the proposed rates and charges, the Commission has adopted the twelve months ended August 31, 1980, as the test period. Pro forma adjustments, when proper and reasonable have been included to more clearly reflect current operating conditions.

#### COMMENTARY

Applicant is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. Water service is provided for some 8,000 customers in Warren and surrounding counties of Kentucky. Further, Applicant provides sewer service to some 153 of its users through a separate sewer division. Of these 153 customers approximately 65 are considered commercial or industrial including several large manufacturing companies.

#### REVENUES AND EXPENSES

Applicant proposed several adjustments to its operating revenues to more closely reflect current and pro forma operating conditions. These adjustments are due to the expiration of a minimum charge agreement with Firestone Rubber Inc., and the addition of General Motors, Inc. The Commission is of the opinion that these adjustments are generally proper and they have been accepted for rate-making purposes. Following

is a recapitulation of these adjustments to revenues.<sup>(1)</sup>

Decreases in revenues	
Expiration of minimum agreement with Firestone	\$18,900.00
Usage of G. M. during construction	<u>1,778.48</u>
Total decreases in revenues	\$20,678.48
Increases in revenues	
Usage of G. M. at full operation	29,838.00
Minimum agreement with G. M.	30,000.00
Firestone usage under rate structure	<u>1,287.60</u>
Total increases in revenues	<u>\$61,125.60</u>
Net increase	<u>\$40,447.12</u>

In addition to the revenue adjustments, Applicant proposed several operating expense adjustments relative to the increased volume in usage expected when General Motors begins full operations.<sup>(2)</sup> The Commission is of the opinion that these adjustments are generally proper and they have been accepted for rate-making purposes with the following exceptions:

1. Applicant proposed to increase pumping and power costs by \$12,238.11 to a level two and one-half times actual test period costs. The factor used by Applicant was determined from the ratio of projected volume including General Motors at full capacity and actual volume excluding General Motors construction volume. The Commission is of the opinion that a more appropriate ratio would have been projected volume of 216,329,678 gallons<sup>(3)</sup> including General Motors at full capacity and actual volume of 104,906,208 gallons<sup>(4)</sup> as the actual pumping and power costs were dependent on actual test period volume.

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<sup>1</sup> Applicant's Exhibit 6-A, page 7.

<sup>2</sup> Applicant Exhibit 2

<sup>3</sup> Applicant's Exhibit 6-A, page 7

<sup>4</sup> Ibid., page 4

Therefore, Applicant's proposal has been reduced by \$3,572.35 to an adjustment of \$8,665.76. In addition, Applicant stated that its power supplier had increased its rate 13% in October 1980, but had not included this increased cost in its pro forma operating expenses. With the inclusion of these higher rates, pro forma pumping and power costs have been increased \$19,011.85.

2. Applicant proposed to adjust maintenance cost by \$8,312.98 based on a similar methodology with both projected and actual volumes decreased slightly to compensate for small areas not requiring lift stations and pumping.<sup>(5)</sup> Again, the Commission is of the opinion that a more appropriate method would have been projected volume over actual volume, each less the estimated unpumped volume. Furthermore, Applicant proposed to use as its base maintenance cost, an amount different than that of the test period. The Commission in examining the exhibit in this matter is of the opinion that maintenance costs have been steadily declining over the past several years and that the amount for the test period is the proper amount to use as a base in determining projected maintenance cost. Therefore, Applicant's proposal has been reduced \$4,257.80 to an adjustment of \$4,055.18 or a pro forma maintenance cost of \$7,569.20.

3. The Commission is of the opinion that the allowance for depreciation expense should be computed on the basis of the original cost of utility plant in service less contributions in aid of construction, as Applicant paid or is paying only for the noncontributed assets and should not be permitted recovery on plant provided free of cost.

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<sup>5</sup>  
Ibid., page 9

Applicant's balance sheet<sup>(6)</sup> reflected contributions in aid of construction of \$1,053,181.83 or approximately 49.25% of total plant in service. Therefore, the Commission has reduced Applicant's depreciation expense by \$18,007.37 to an adjusted level of \$18,554.72.

Thus, Applicant's test period has been adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 83,246.62	\$ 40,825.06 <sup>(7)</sup>	\$ 124,071.68
Operating Expenses	80,684.92	17,952.37	98,637.29
Net Operating Income	<u>\$ 2,561.70</u>	<u>\$ 22,872.69</u>	<u>\$ 25,434.39</u>

#### REVENUES REQUIREMENTS

Applicant's debt service based on the end-of-period outstanding debt was \$52,825. Using adjusted test period results, including interest income from required depreciation and debt service reserves of \$13,057,71, Applicant's debt service coverage was approximately .73 x. The Commission is of the opinion that this coverage is inadequate and will erode the financial position of the utility. Therefore, additional revenues of \$24,898<sup>(8)</sup> are required to improve Applicant's debt service coverage to a reasonable level of 1.2 x. Based on test period results, total operating revenues of \$148,970 will be sufficient to allow the Applicant to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus.

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<sup>6</sup> Applicant's Exhibit 3

<sup>7</sup> Applicant's Exhibit 6-A, page 7. (Includes normalization of \$377.94)

<sup>8</sup>  $1.2 - .7287 = .4713 \times 52,825 = \$24,897.90$

### SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that:

(1) The rates and charges prescribed and set forth in Appendix A are the fair, just and reasonable rates to charge for sewer service rendered by Applicant, in that based on test period conditions, operating revenues, of \$148,970 will be produced.

(2) A debt service coverage of 1.2x is fair, just and reasonable in that it should permit Applicant to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus.

(3) The rates as proposed by Applicant and set forth in its notice would produce revenues in excess of those found to be reasonable herein and, therefore, must be denied upon application of KRS 278.030.

(4) The agreement with General Motors Inc., has not been filed with the Commission as the agreement was unsigned at the date of the hearing.

IT IS THEREFORE ORDERED that the rates and charges set forth in Appendix A are fair, just and reasonable for sewer service rendered by Warren County Water District on and after the date of this Order.

IT IS FURTHER ORDERED that the rates and charges proposed by Warren County and set forth in its notice, insofar as they differ from those in Appendix A, shall be and are hereby denied.

IT IS FURTHER ORDERED that upon consummation of an agreement with General Motors, Inc., Warren County shall file a true copy with this Commission within 30 days of the consummation date.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission, within 30 days from the date of this Order, its tariff sheets setting forth the rates and charges approved herein.

Done at Frankfort, Kentucky, this 5th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh  
Chairman

Katharine Randall  
Vice Chairman

Jim Hargan  
Commissioner

ATTEST:

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Secretary

## APPENDIX A

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8084 DATED JUNE 5, 1981.

The following rates are prescribed for all customers served by Warren County Water District, Sewer Division. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

#### Domestic, Commercial, or Industrial

##### RATES: Monthly

First	2,000 gallons	\$ 4.50 Minimum Bill
Next	3,000 gallons	1.80 per 1,000 gallons
Next	3,000 gallons	1.20 per 1,000 gallons
Next	4,000 gallons	1.05 per 1,000 gallons
Next	20,000 gallons	.95 per 1,000 gallons
Next	50,000 gallons	.80 per 1,000 gallons
Next	60,000 gallons	.70 per 1,000 gallons
Next	3,000,000 gallons	.40 per 1,000 gallons
Over	3,142,000 gallons	.30 per 1,000 gallons